

Message Text

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ACTION NEA-12

INFO OCT-01 ISO-00 NEAE-00 SCI-06 CU-04 ABF-01 FSE-00

AGR-20 SPC-03 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03 PA-04

PRS-01 USIE-00 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00

XMB-07 OPIC-12 LAB-06 SIL-01 SSO-00 NSCE-00 INRE-00

DRC-01 /172 W

----- 122400

O R 131300Z DEC 73

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC IMMEDIATE 8483

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

UNCLAS SECTION 1 OF 2 NEW DELHI 14670

E.O. 11652: N/A

TAGS: EFIN IN

SUBJECT: RUPEES: GOI STATEMENT ON RUPEE AGREEMENT

1. FINANCE MINISTER CHAVAN OFFICIALLY ANNOUNCED THE INITIALING OF THE RUPEE AGREEMENT TO THE PARLIAMENT ON DECEMBER 13. HIS STATEMENT TRACED THE ORIGIN OF THE FUNDS AND HOW THEY WILL BE HANDLED. HE STRESSED THE DESIRE OF BOTH GOVERNMENTS TO SETTLE THIS ISSUE, TO IMPROVE RELATIONS, AND TO MAKE FINITE WHAT COULD OTHERWISE BE AN INFINITE US ACCUMULATION OF RUPEES.

2. THE ADVANCE TEXT FOLLOWS: (NOT CHECKED AGAINST TEXT AS DELIVERED)

"STATEMENT BY THE FINANCE MINISTER IN THE LOK SABHA

"ON THURSDAY, THE 13TH DECEMBER, 1973

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ON THE DISPOSITION OF RUPEE ACCUMULATION

IN INDIA BY THE U.S. GOVERNMENT.

"AN AGREEMENT ON THE DISPOSITION OF RUPEE FUNDS HELD IN INDIA BY THE UNITED STATES GOVERNMENT WAS INITIALLED THIS MORNING BY THE SECRETARY, DEPARTMENT OF ECONOMIC AFFAIRS, MINISTRY OF FINANCE, FOR THE GOVERNMENT OF INDIA, AND THE AMBASSADOR FOR THE UNITED STATES OF AMERICA.

"2. THE LARGE AMOUNTS OF US-OWNED RUPEE ACCUMULATION WERE GENERATED, UNDER THE TWO FOLLOWING TYPES OF AGREEMENTS AND FROM INTEREST PAYMENTS ON THE RESULTING BANK DEPOSITS:

"1. UNDER U.S.A.I.D. AND ITS PREDECESSOR AGENCIES, FROM 1954-61, DOLLAR LOANS WERE GIVEN TO THE INDIAN GOVERNMENT AND TO PRIVATE BORROWERS FOR DEVELOPMENT PURPOSES; THESE WERE REPAYABLE IN RUPEES.

"2. UNDER VARIOUS AGRICULTURAL SALES AGREEMENTS, COMMONLY CALLED PL-480, THE U.S. SOLD TO INDIA FROM 1956 THROUGH 1972, ABOUT 60 MILLION TONS OF AGRICULTURAL PRODUCTS (MAINLY WHEAT, COARSE GRAINS, RICE, COTTON AND VEGETABLE OIL) WITH A LANDED VALUE OF DOLS 4.8 BILLION (RS. 36,000 MILLION) FOR PAYMENT, EITHER IN WHOLE OR IN PART, IN RUPEES.

"THE RUPEES UNDER THE TWO CATEGORIES ARE KNOWN AS NON-PL-480 RUPEES AND PL-480 RUPEES RESPECTIVELY. THE AGREEMENT INITIALLED TODAY ARRANGES FOR THE FINAL DISPOSITION OF PL-480 RUPEES, AND EVOLVES A PROCEDURE FOR THE DISPOSAL OF NON-PL-480 RUPEES WITHIN A REASONABLE PERIOD OF TIME.

"3. REGARDING PL-480 RUPEES, THE AGREEMENT PROVIDES THAT THE GOVERNMENT OF INDIA WILL PREPAY TO THE UNITED STATES OF AMERICA ALL THE REMAINING SUMS IT OWES THAT COUNTRY AMOUNTING TO RS. 15,140 MILLION. THE U.S. EMBASSY WILL ON ITS PART CASH ITS SECURITIES WITH THE R.B.I. ARISING FROM PL-480 REPAYMENTS BY THE GOVERNMENT OF INDIA AMOUNTING TO RS. 1870 MILLION. OUT OF THE TOTAL OF U.S. 17,010 MILLION, THE UNITED STATES WILL GRANT TO THE GOVERNMENT OF INDIA RS. 16,640 MILLION REPRESENTING THE SUBSTANTIAL PORTION OF THE PRE-PAYMENT OF PL 480 COMMODITY LOANSJO AND THE UNCLASSIFIED

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SUMS WITH THE R.B.I. ON REPAYMENT OF PL 480 LOANS IN THE PAST. THIS IS TO BE ACCOUNTED FOR WITHIN A PERIOD OF FIVE YEARS FROM THE DATE OF THE AGREEMENT BY ATTRIBUTION BY THE GOVERNMENT OF INDIA TO DEVELOPMENT PROJECTS IN VARIOUS SECTORS WHICH HAVE BEEN IDENTIFIED AND ALREADY INCLUDED IN THE FIVE YEAR PLAN. THIS WILL THEREFORE NOT REPRESENT ANY "ADDITIONALITY." THE ATTRIBUTION IS IN RECOGNITION OF THE CONTRIBUTION MADE TO OUR ECONOMY BY THE PL 480 LOANS IN PAST

YEARS, DURING WHICH AGRICULTURAL COMMODITIES WERE RECEIVED
AND UTILIZED.

"4. REGARDING NON-PL 480 RUPEES THE AGREEMENT PROVIDES THAT THE GOVERNMENT OF INDIA WILL PREPAY TO THE UNITED STATES OF AMERICA ALL THE REMAINING SUMS IT OWES THAT COUNTRY AMOUNTING TO RS. 2,090 MILLION. THE US EMBASSY ON ITS PART WILL CASH ITS R.B.
I. SECURITIES AMOUNTING TO RS. 4,720 MILLION ARISING FROM PAYMENTS ON NON-PL 480 LOANS. THIS AMOUNT OF RS.6,810 MILLION WILL BE RETAINED BY THE US GOVERNMENT. AN ADDITIONAL AMOUNT OF RUPEE LOANS TO AMERICAN BUSINESS AND PRIVATE COMPANIES IN INDIA (ESTIMATED AT RS. 1,150 MILLION), ALONG WITH THE RS. 370 MILLION FROM PL 480 RUPEES, WILL ALSO BE RETAINED BY THE UNITED STATES GOVERNMENT FOR ITS USE IN INDIA. THIS TOTAL AMOUNT OF RS.3 27530 MILLION WILL BE KEPT BY THE U.S. EMBASSY IN THE PUBLIC ACCOUNT OF THE GOVERNMENT OF INDIA, AND WILL BE INTEREST FREE.
IT HAS BEEN AGREED THAT OUT OF THE SUM SO RETAINED, AN AMOUNT OF RS. 3,890 MILLION REPRESENTING THE EQUIVALENT OF DOLS 500 MILLION AT THE PRESENT RATE OF EXCHANGE BETWEEN THE DOLLAR AND THE RUPEE, WILL BE MAINTAINED IN VALUE OVER A PERIOD OF 10 YEARS, THE REDUCTION BEING AT THE RATE OF 1/10TH EACH YEAR. ALSO, IN ACCORDANCE WITH THE PROVISIONS OF THE PL 480 AGREEMENT, AN AMOUNT OF RS. 500 MILLION WILL BE CONVERTED INTO DOLLARS FOR SUCH USES AS THE US GOVERNMENT MAY DETERMINE, INCLUDING THE DEVELOPMENT OF MARKETS FOR U.S. AGRICULTURAL COMMODITIES.
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ACTION NEA-12

INFO OCT-01 ISO-00 SCI-06 CU-04 ABF-01 FSE-00 AGR-20

SPC-03 AID-20 EB-11 NSC-10 RSC-01 CIEP-02 TRSE-00

SS-20 STR-08 OMB-01 CEA-02 L-03 H-03 PA-04 PRS-01

USIE-00 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

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O R 131300Z DEC 73
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TO SECSTATE WASHDC IMMEDIATE 8484
INFO AMCONSUL BOMBAY
AMCONSUL CALCUTTA
AMCONSUL MADRAS

UNCLAS SECTION 2 OF 2 NEW DELHI 14670

E.O. 11652: N/A
TAGS: EFIN IN
SUBJECT: RUPEES: GOI STATEMENT ON RUPEE AGREEMENT

"5. THE AGREEMENT PROVIDES THAT THE UNITED STATES MAY
CONTINUE TO USE THE RUPEES RETAINED BY THEM FOR THE SAME
RANGE OF PURPOSES AND AT ABOUT THE SAME LEVEL OF EXPENDITURE
((685#
ALOWANCE FOR ANY FUTURE PRICE INFLATIONL AS IN THE
YEARS IMMEDIATELY PRECEDING JUNE 1972, FOLLOWING THE SAME
CONSULTATIVE PROCEDURES AS WERE IN FORCE IN THE YEARS
PRECEDING JUNE 1972. ESTABLISHED USES OF THE TYPE
CONTEMPLATED BY THE AGREEMENT INCLUDE THE LOCAL CURRENCY
COSTS OF OPERATING THE UNITED STATES EMBASSY, SCIENTIFIC
AND CULTURAL EXCHANGES, AND THE FINANCING OF FREIGHT AND PORT
CHARGES FOR AGRICULTURAL COMMODITIES DONATED BY U.S. VOLUNTARY
AGENCIES.

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"6. THE AGREEMENT ALSO PERMITS THE FINANCING OF U.S. ECONOMIC
ASSISTANCE PROGRAMMES IN NEPAL AT THE RATE OF RS. 65 MILLION
A YEAR FOR A PERIOD OF THREE YEARS, AND THE PURCHASE BY THE
UNITED STATES GOVERNMENT FOR EXPORT FROM INDIA OF GOODS AND
SERVICES TOTALLING UP TO DOLS 100 MILLION OVER A FIVE-YEAR
PERIOD. OF THIS DOLS 75 MILLION WILL BE PAID IN DOLLARS BY
THE U.S. GOVERNMENT, AND DOLS 25 MILLION WILL BE MET OUT OF
US-HELD RUPEES. THESE EXPORTS WOULD BE ADDITIONAL TO NORMAL
EXPORTS TO THE UNITED STATES, AND THE ARTICLES CHOSEN WOULD
BE AGREED TO BY BOTH GOVERNMENTS.

"7. THE UNITED STATES GOVERNMENT HAVE ON DEPOSIT AT PRESENT
APPROXIMATELYHNS. 7,120 MILLION. IF THIS AGREEMENT WERE NOT
ENTERED INTO, WITH THE ADDITION OF INTEREST AND PRINCIPAL
REPAYMENTS UPTO 2012 AD, WHEN THE LAST REPAYMENT WOULD HAVE
BEEN MADE BY THE GOVERNMENT OF INDIA ON THE LAST LOAN
AGREEMENT, THIS FIGURE WOULD INCREASE TO OVER RUJM 30,000
MILLION AT THE PRESENT LEVELS OF U.S. EXONDITURES. AS THE
ESTIMATED UNITED STATES USE OF THESE RUPEES IS IN THE
REGION OF RS. 350 TO 400 MILLION ANNUALLY, IT IS APPARENT
THAT US RUPEE HOLDINGS-ACTUAL AND POTENTIAL- ### EXCEEDED

US USE OF THESE. IN FACT, IN THE FUTURE,
INTEREST ON US HOLDINGS OF RUPEES WOULD HAVE SUFFICIENT TO MEET
U.S. EXPENDITURES WITHOUT DRAWING ON THE CAPITAL. AS A
RESULT OF THIS AGREEMENT, A SITUATION WHICH WOULD OTHERWISE
HAVE CONTINUED IN PERPETUITY WILL DISAPPEAR WITHIN A
REASONABLE TIME-FRAME.

"8. THIS AGREEMENT IS THE PRODUCT OF SEVERAL MONTHS OF
NEGOTIATIONS BETWEEN INDIA AND THE UNITED STATES. FOR
MANY YEARS BOTH INDIA AND THE UNITED STATES OF AMERICA
HAVE RECOGNIZED THE NEED FOR A SOLUTION TO THE PROBLEM WHICH
HAS STOOD IN THE WAY OF HEALTHY ECONOMIC RELATIONS BETWEEN
THE TWO COUNTRIES. THE TWO COUNTRIES HAVE NOW EXPLORED THIS
PROBLEM TOGETHER IN A SPIRIT OF GOODWILL AND UNDERSTANDING
AND WORKED OUT A MUTUALLY ADVANTAGEOUS SOLUTION WHICH
WILL STRENGTHEN ECONOMIC RELATIONS BETWEEN THE TWO COUNTRIES.

"9. LEGISLATIVE PROCEDURES IN THE U.S. REQUIRE SUBMISSION OF
THE AGREEMENT TO THE AGRICULTURE AND FOREIGN RELATIONS
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COMMITTEES OF THE UNITED STATES CONGRESS. AS SOON AS THIS
PROCESS IS COMPLETED, THE U.S. ADMINISTRATION WILL RECEIVE THE
AUTHORITY TO CONCLUDE THE AGREEMENT. ON RECEIPT OF INFORMATION
THAT SUCH REVIEW HAS BEEN COMPLETED, WE WILL CONCLUDE THE
AGREEMENT."

MOYNIHAN

NOTE BY OCT: ### OMISSION;
CORRECTION TO FOLLOW.

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Message Attributes

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